Cherwell District Council

Capital and Investment Strategy 2021/22

A. Capital Strategy (Including Minimum Revenue Provision (MRP) Statement)

A1. Introduction

A1.1 The Prudential Code for Capital Finance sets out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Strategy must be approved by full Council.

A1.2 The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved. This strategy should be read alongside and in conjunction with the Treasury Management Strategy and the Investment Strategy.

A2. Capital Expenditure and Financing

A2.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year[1]. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year. In 2021/22, the Council is planning capital expenditure of £36.2m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2019/20 actual	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
Services	16.3	15.0	11.0	0	0
Capital investments	25.5	64.7	25.2	1.4	0
TOTAL	41.8	81.2	36.2	1.4	0

A2.2 The main capital projects across the period include the Build! Programme, Castle Quay 1 and 2 and the Bretch Hill Reservoir Phase 2.

[1] For details of the Council's policy on capitalisation, see Financial Regulations

Governance

A2.3 Capital project bids linked to corporate or service priorities plus essential need are brought forward by Service Managers as part of the Budget & Business Planning process. These are considered by the senior officer leadership team, both in terms of priority and affordability. The Finance team undertake a calculation of the financing cost of proposals and recommend the level of investment based on affordability. Projects proposed to be included in the Council's capital programme are then considered and appraised by the Budget Planning Committee and provide comments to the Executive on the proposals. The Executive then, taking into consideration any comments propose which schemes to include in the Capital Programme ahead of the final capital programme being proposed to Council in February each year.

A2.4 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2019/20 actual	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
External sources	3.4	0.8	1.0	1.0	1.0
Own resources	4.0	1.9	4.0	6.0	23.0
Debt	34.4	78.5	31.2	(5.6)	(24.0)
TOTAL	**41.8**	**81.2**	**36.2**	**1.4**	**0**

A2.5 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is, therefore, replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). In addition, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2019/20 actual	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
Own resources	4.0	1.9	4.0	6.0	23.0

The Council's minimum revenue provision (MRP) statement is included at Appendix A below.

A2.6 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £29.2m during 2021/22. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
TOTAL CFR	**178.7**	**255.2**	**284.4**	**275.0**	**247.3**

Asset management

A2.7 To ensure that capital assets continue to be of long-term use, the Council has a property management strategy in place. This is a multi-level approach structured as follows:

- At a tenancy level the Comprehensive Asset Register (a database of key lease events) is being updated and used to identify forthcoming lease events such as expiries, rent reviews and breaks. These are allocated to specific asset managers to progress whose work schedules are reviewed periodically.
- At a property level this can comprise the preparation of asset specific management plans which are then subject to periodic review and updating. This process is ongoing and informs the portfolio strategy as a whole.
- At a portfolio level the make-up of the portfolio is considered annually in terms of its sector weighting and suitability to meet the Council's longer term objectives of providing a secure risk weighted income stream. One such review is ongoing.

Asset disposals

A2.8 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. In addition, there are currently no plans to utilise capital receipts on services transformation projects for 2020/21 and 2021/22. Receipts from capital grants, loan repayments and investments also generate capital receipts.

A3 Treasury Management

A3.1 Treasury management is concerned with the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council typically has surplus cash in the short-term as revenue income is received before it is spent, but insufficient cash in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing. At 30 September 2020 the Council had borrowings of £152m at an average interest rate of 1.43%, and £15.4m of investments at an average interest rate of 0.47%. The borrowing position is reported regularly to Accounts, Audit & Risk Committee as part of the Treasury Management Reports.

Borrowing strategy

A3.2 The Council's main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. This objective often conflicts, and the Council therefore seeks to strike a balance between lower cost short-term loans (currently available at around 0.75% to1.0%) and long-term fixed rate loans where the future cost is known, but higher cost (currently 2.5% to 3.0%).

Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (see above).

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31 March 2020 actual	**31 March 2021 forecast**	**31 March 2022 budget**	**31 March 2023 budget**	**31 March 2024 budget**
Debt (incl. leases)	141.0	219.5	250.7	192.5	188.5
Capital Financing Requirement	178.7	255.2	284.4	275.0	247.3

A3.3 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 5 above the Council expects to comply with this in the medium term.

Affordable borrowing limit

A3.4 The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 6: Prudential Indicators: Operational boundary and Authorised limit for external debt in £m

	2020/21 limit	**2021/22 limit**	**2022/23 limit**	**2023/24 limit**
Operational boundary total external debt	215	270	270	270
Authorised limit total external debt	240	300	300	300

Further details on treasury investments can be found in the treasury management strategy.

A4. Commercial Activities

A4.1 To drive leadership of place within Cherwell, stimulate growth, pursue economic regeneration and helping to return confidence to the local economy through investment and facilitating inward investment, the Council invests in commercial property which may also provide some financial gain. Total commercial investments are currently (31 March 2020) valued at £62m with the largest being Castle Quay.

A4.2 From a financial perspective, the Council recognises that commercial investments can be higher risk than treasury investments. The principal risk exposures are listed below together with an outline of how those risks are managed:

Illiquidity:	The Council acknowledges illiquidity as a risk in property and whilst it cannot be avoided the risk is mitigated by the following strategies: a) The council invests across a range of sectors. Illiquidity is to an extent fluid and at any given time varies across sectors. This allows the Council the opportunity to effect sales, if required, in the more liquid sectors. b) The Council's assets are likewise diversified in terms of lot size and market sector. This affords the Council the ability to access a range of purchaser types e.g. small local investors, listed property companies or institutions. c) The Council's investments are not what is termed 'Investment Grade', but they are fundable – i.e. if sold they could be suitable for debt backed investors. d) The Council's assets are uncharged. It is often lenders who require assets to be sold and whilst gearing does not increase illiquidity per se, it can expose an owner to greater risk of selling an illiquid asset at an inopportune time.
Tenant default:	The Council's portfolio includes both large national concerns and small local businesses (mainly retail or industrial type tenants). Tenant default risk is managed in two ways: a) Tenants are vetted when entering the portfolio either as new tenants when property is let or as replacement tenants when existing tenants assign their leases. It has to be acknowledged that there is less control when a tenant applies for consent to assign, though guarantees may be sought. b) Risk is managed by diversification as only a small proportion of tenants will fail in any given year. c) A commercial risk earmarked reserve is held to meet any shortfall in income which may arise in year due to default.
Obsolescence:	A significant proportion of the Council's portfolio comprises industrial / warehouse buildings and simple retail assets which have relatively low obsolescence compared to industrial premises where there are substantial amounts of plant and machinery. Where the Council has offices a sinking / replacement fund is put in place with annual sums collected from tenants to put towards high cost items such as the replacement of lifts or air conditioning. An example of this is the Banbury Health Centre which has a renewals fund set at £10,000 per annum. In other leases the Council will try to negotiate terms which allow for the replacement of obsolete plant when it is beyond economic repair. Where matters of Council policy override commercial concerns, the Council's portfolio is more vulnerable. For example, at Banbury Museum, the Council may be responsible for significant capital outlay on plant and machinery as it nears the end of its useful economic life.

Capital expenditure	Please see above but also note that the Council aims to let space on Full Repairing terms which makes the tenant either explicitly responsible for maintaining the asset or allows CDC to recover the cost of repairs through the service charge provisions of the relevant lease.
Market risk:	Two key market risks are falling rents in response to declining economic conditions and extended marketing voids when leases end or tenants fail. These risks are mitigated in three main ways: 1. Lease lengths should be 3 – 5 yrs + which obviates most market risks during the period of the tenancy. 2. Rents are reviewed in an upwards only direction. This means that they cannot fall during the term of a lease. 3. Tenant failure – see above under Tenant Default, re: vetting and diversification policies plus earmarked reserves held. An additional risk is over-exposure to town centre retailing as the portfolio's largest assets are Castle Quay Shopping Centre in Banbury and Pioneer Square in Bicester. These are both strategic investments and in respect of Castle Quay, the Council relies on external advisors, particularly Montague Evans, to identify and manage both upside and downside risks.
Returns eroded by inflation:	All investment assets incorporate periodic rent reviews which provide a hedge against inflation. Property is generally accepted as performing better than fixed income assets in times of inflation.
Rising interest rates:	The portfolio is ungeared and therefore un-mortgaged.

Governance

A4.3 Decisions on commercial investments are made by Members and Statutory Officers in line with the criteria and limits approved by Council in the Investment Strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

Further details on commercial investments and limits on their use can be found in the Investment Strategy.

A4.4 The Council also has commercial activities in trading companies, exposing it to normal commercial risks. These risks are managed by the governance structure in place. The Shareholder Committee is regularly informed of the progress of each company. The Shareholder meets with the directors both formally and informally to ensure there is a consistent dialog between the companies and the council.

A5. Revenue Budget Implications

A5.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general Government grants.

Table 7: Prudential Indicator: Proportion of financing costs to net revenue stream

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Net Financing costs/(Income)(£m)	(£0.6m)	(£0.1m)	(£2.7m)	(£1.2m)	(£1.1m)
Proportion of net revenue stream	(3%)	(0%)	(11%)	(7%)	(7%)

Further details on the revenue implications of capital expenditure are in the 2021/22 revenue budget.

Sustainability

A5.2 Due to the very long-term nature of capital financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future, which aligns with the attached MRP Statement. The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

A6. Knowledge and Skills

A6.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Section 151 Officer is a qualified accountant with many years' experience, the Assistant Director of Property and Investments is a chartered surveyor with over twenty years' experience of asset management and commercial property investment. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and RICS.

A6.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, and a range of the current property advisors is as follows:

- Banbury based surveyors White Commercial and Bankier Sloane provide advice on the local property market, and assistance with new lettings, lease renewals, smaller valuations and rent reviews.
- Where specialist advice is required, the Council will ask for competitive quotes.
- Montague Evans supply asset management and facilities management in respect of Castle Quay.
- GVA Grimley also supply specialist accounting services in respect of Castle Quay.
- Montague Evans and Colliers both provide property valuation services
- BWD and Jackson Criss assist with Castle Quay lettings

- Gardiner Theobald provide project management, QS, CDM and Design services on Castle Quay
- Broomfield Property Ltd and Prime Project Management Ltd provide services relating to Castle Quay

This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Appendix A – Minimum Revenue Provision (MRP) Statement

1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). The Council is required by statute to charge an amount of MRP to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax-payers.

2. Legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.

3. The Council is recommended therefore to approve the following statement:
   - For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
   - For capital expenditure loans to third parties that are repaid in instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.

4. Capital expenditure incurred during 2021//22 will not be subject to an MRP charge until 2022/23.

B. Investment Strategy 2021/22

B1. Introduction

B1.1 The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),

- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

B1.2 The investment strategy was a new report introduced for 2019/20, meeting the requirements of statutory guidance issued by the Government in January 2018, and focuses on the second and third of these categories.

B2. Treasury Management Investments

B2.1 The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to be an average of £15m during the 2021/22 financial year.

Contribution

B2.2 The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details

B2.3 Full details of the Council's policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the treasury management strategy.

B3. Service Investments: Loans

Contribution

B3.1 The Council lends money to its subsidiaries, local parishes, the local Business Improvement District, and local charities to support local public services and stimulate local economic growth. The main loans issued are to the council's subsidiaries – the Graven Hill Village companies and Crown House Banbury Ltd. Graven Hill is an ambitious self-build housing development providing significant housing in Bicester. Crown House is a redeveloped derelict office building in the centre of Banbury which is providing significant rental opportunities in the town centre while removing an eye-sore.

Security

B3.2 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	**31.3.2020 actual**			**2021/22**
	Balance*	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Subsidiaries	59.088	(0.728)	58.360	83.288
Local charities	1.186	(0.050)	1.136	1.150
Local Business	0.020	0	0.020	0.050
Parishes	0.077	0	0.077	0.100
TOTAL	**60.371**	**(0.778)**	**59.593**	**84.588**

** including accrued interest*

B3.3 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2018/19 onwards are shown net of this loss allowance. The Council, however, makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment

B3.4 The Council assesses the risk of loss before entering into and whilst holding service loans by approaching each loan request individually. The bulk of the council's loans are to its subsidiaries. When the council considers whether or not to create or acquire a subsidiary a full business case is prepared which sets out the optimal financing of the company. This will include an assessment of the market in which it will be competing, the nature and level of competition, how that market may evolve over time, exit strategy and any ongoing investment requirements. External advisors are used where appropriate to complement officer expertise and second opinions from alternate advisors is sought in order to monitor and maintain the quality of advice provided by external advisors.

B3.5 Other service loans are evaluated against a set of criteria designed to demonstrate:

- Evidence of project objectives and needs analysis is provided
- The loan must have a demonstrable community impact
- The loan would provide up to 50% of the whole project cost
- Such a loan can only be applied for by constituted voluntary organisations with their own bank account; Town or Parish councils; charitable organisations
- The loan cannot be applied retrospectively
- The applicant has provided evidence of its financial stability and of its ability to manage the proposed scheme

- The applicant has demonstrated that the proposed scheme has been developed following good practice in terms of planning, procurement and financial appraisal

- The applicant has provided evidence the affordability of their proposed scheme and the loan repayments

- That the project furthers the council's priorities as reflected in its Business Plan

B4. Service Investments: Shares

Contribution

B4.1 The council invests in the shares of its subsidiaries to support local public services and stimulate local economic and housing growth. The council currently holds shares in Graven Hill Holding Company Ltd and Crown House Banbury Ltd.

Security

B4.2 One of the risks of investing in shares is that they can fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	**31.3.2020 actual**			**2021/22**
	Amounts invested	**Gains or losses**	**Value in accounts**	**Approved Limit**
Subsidiaries	29.053	0	29.053	38.823
TOTAL	**29.053**	**0**	**29.053**	**38.823**

Risk assessment

B4.3 The Council assesses the risk of loss before entering into and whilst holding shares by maintaining close links with the Boards of Directors of the companies through an established Shareholder Committee. Risk is assessed as above in Service Loans.

Liquidity

B4.4 The maximum periods for which funds may prudently be committed are assessed on a project by project basis. The decision will balance both the long term viability of the subsidiary and the revenue and capital requirements of the Council.

Non-specified Investments

B4.5 Shares are the only investment type that the council has identified that meets the definition of a non-specified investment in the Government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

B5. Commercial Investments: Property

Contribution

B5.1 The Council invests in local commercial and residential property with the intention of making a profit that will be spent on local public services. The portfolio comprises a cross-section of retail, office and industrial assets together with a health centre. The four largest investments are as follows:

- Castle Quay, Banbury; a covered shopping centre and development site
- Pioneer Square, Bicester; a modern retail parade of shops
- Franklins House, Bicester; a mixed-use complex comprising offices, hotel, business centre and public library
- Tramway Industrial Estate

B5.2 These assets contribute an aggregate £5.1m gross income to the council's revenue budget. They are all town centre properties and afford the Council an opportunity to influence the amenity and environment of its two principal strategic centres. Castle Quay will, in particular, allow the development of a new leisure orientated focal point to help revitalise Banbury town centre.

The component parts of the entire investment portfolio are described below:

Table 3: Property held for investment purposes in £ millions

Property	**Actual**	**31.3.2020 Actual**			**31.3.2021 Expected**	**31.3.2022 Expected**
	Purchase Cost	**Net Book Value in accounts 31.3.2019**	**Expenditure, Gains or (losses)**	**Net Book Value in accounts 31.3.2020**	**Net Book Value in accounts**	**Net Book Value in accounts**
Castle Quay Shopping Centre	63.485	42.425	(9.425)	33.000	33.000	40.812
Castle Quay Waterfront	0.000	0.000	0.000	0.000	0.000	72.482
Pioneer Square	8.164	8.053	(0.693)	7.360	7.360	7.360
Tramway Industrial Estate	9.618	9.220	0.030	9.250	9.250	9.250
Other properties	13.092	12.542	(0.545)	11.997	11.997	11.997

valued under £5m						
TOTAL	**94.359**	**72.240**	**(10.633)**	**61.607**	**61.607**	**141.901**

Security

B5.3 In accordance with Government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

B5.4 A fair value assessment of the council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2020/21 year-end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk assessment

B5.5 The Council assesses the risk of loss before entering into and whilst holding property investments by cash flow modelling the income and expenditure profile of each investment and interrogating that model across a range of scenarios to test the robustness of the investment. The modelling exercise is informed by the likelihood of tenant default and the chances that individual units will become empty during the hold period.

B5.6 The property investment market is dynamic and we are kept abreast of developments by frequent communication and established relationships with local and national agents, supplemented by in-house investigations and reading of published research. The market is, at present, competitive in most asset sectors and our focus is on assets that are local, strategic and meet our investment return criteria. We are mindful of the Council's need for reliable future income streams and occupational demand is fundamental to our appraisals as longer let assets tend not to generate sufficiently attractive returns.

B5.7 In all acquisitions we take external advice from acknowledged experts in the field and sense-check their input against our in-house knowledge, experience and expertise. The advice sourced covers market value but also, given the purpose of the investment, letting risk, marketability and occupational demand, and likely expenditure over the hold period.

B5.8 The Council uses a number of local and national advisors and cross reference their views periodically. There is no single party who expects to be instructed by the Council without competition.

B5.9 Credit ratings are used on acquisitions, new lettings and when tenants request consent to assign their leases. The Council uses D&B ratings and also study published accounts.

Credit ratings have not historically been used to monitor existing tenants but this will be introduced for our largest tenants this year.

B5.10 A number of other strategies are used to mitigate risk:

- Tenant rent payment histories are analysed on any acquisition.
- Tenant rent payment patterns and arrears are examined in the existing portfolio.
- Introducing agents advise the council throughout the acquisition process and their advice includes market commentary at a national and a local level and commentary on perceived risks to the investment.
- In tandem with the above every acquisition is subject to a third-party valuation by national surveyors who are independent i.e. not acting for the council or the vendor on the acquisition.

Liquidity

B5.11 Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the council acknowledges illiquidity as a risk in property and whilst it cannot be avoided the risk is mitigated by the following strategies:

- The Council invests across a range of sectors. Illiquidity is, to an extent, fluid and at any given time varies across sectors. This allows the Council the opportunity to effect sales, if required, in the more liquid sectors.
- The Council's assets are, likewise, diversified in terms of lot size. This affords the Council the ability to access a range of purchaser types e.g. small local investors, listed property companies or institutions.
- The Council does not invest in high risk assets which can be the most illiquid of all.
- The Council's investments are not what is termed 'Investment Grade', but they are fundable – i.e. if sold they could be suitable for debt backed investors.
- The Council does not invest in specialist properties, where the market tends to be most illiquid.
- The Council's assets are uncharged. It is often lenders who require assets to be sold and whilst gearing does not increase illiquidity per se, it can expose an owner to greater risk of selling an illiquid asset at an inopportune time.

B6. Loan Commitments and Financial Guarantees

B6.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the council and are included here for completeness.

The council has contractually committed to the following loan amounts which have yet to be drawn upon (as at 31/3/20):

Table 4: Loan Commitments and Guarantees

Borrower	**Purpose**	**£m Contractually Available**
Crown House Banbury Ltd	Redevelopment of town centre building into housing	0.2

Graven Hill Village Development Company Ltd	Revolving Credit Facility available to the council's subsidiary until 2026	13.0
Graven Hill Village Development Company Ltd	Facility Agreement that has been in place since 2014 to deliver the project.	15.4
Graven Hill Village Development Company Ltd	Loan Note instruments to enable the company to deliver its objectives	6.1
TOTAL		**34.7**

The council has also issued a performance bond of £22 million to Oxfordshire County Council (OCC) on behalf of Graven Hill Village Development Company Ltd in respect of Graven Hill's obligations to OCC under s106 agreements.

B7. Capacity, Skills and Culture

Elected members and statutory officers

B7.1 The majority of senior statutory officers are qualified to degree level and have appropriate professional qualifications. Their shared business experience encompasses both the public and private sectors and the three most senior Property & Investment team members have on average 20+ years commercial experience.

Training and guidance are provided to support members in delivering their roles and support effective decision making.

Commercial Investments

B7.2 Negotiations are either undertaken directly by Assistant Directors or at a senior level with Assistant Director direct involvement and oversight, alongside input from Directors and Lead Members where required. Assistant Directors are aware of the regulatory regime and convey that to all junior staff**.**

Corporate governance

B7.3 There are appropriate corporate governance measures in place which comprise end to end decision making procedures. These include risk assessments within the organisation; presentation to relevant committees including Members, statutory officers approvals and relevant project boards.

B8. Investment Indicators

B8.1 The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure

B8.2 The first indicator shows the council's total exposure to potential investment losses. This includes amounts the council is contractually committed to lend but have yet to be drawn down and guarantees the council has issued over third party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	**31.03.2020 Actual**	**31.03.2021 Forecast**	**31.03.2022 Forecast**
Treasury management investments	22.0	15.0	15.0
Service investments: Loans	60.4	66.6	77.6
Service investments: Shares	29.1	33.1	33.1
Commercial investments: Property	61.6	61.6	141.9
TOTAL INVESTMENTS	**173.1**	**176.3**	**267.6**
Commitments to lend	34.7	28.7	17.7
TOTAL EXPOSURE	**207.8**	**205.0**	**285.3**

How investments are funded

B8.3 Government guidance is that these indicators should include how investments are funded. The Council's investments are funded by usable reserves, income received
in advance of expenditure and borrowing.

Rate of return received

B8.4 This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 6: Investment rate of return (net of all costs)

Investments net rate of return	**2019/20 Actual**	**2020/21 Forecast**	**2021/22 Forecast**
Treasury management investments	0.69%	0.30%	0.09%
Service investments: Loans	1.5% - 12%	1.5% - 12%	1.5% - 12%
Commercial investments: Property	Variable	Variable	Variable